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## Socio-economic effects of the organic certification system

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The function of the organic certification system is to enable systemic trust in organic agriculture and products. The growth of the organic sector over the past two decades has required therefore a change in the certification system replacing the first party, or peer review, system by a third party certification, in which a disinterested party provides the certification. Third party inspection is based on an institutionalized mistrust order, which induces several effects. Consumers trust in organic labelling schemes, when there is a substantial active and visible state involvement. But there are also other effects within both the certification system and the inspection bodies. Furthermore there are effects in interactions with producers or customers. The literature review shows that so far studies dealing both with processes in and effects of certification systems have been rare.

**Keywords:** certification system, organic agriculture, confidence building

### 1 Introduction

The peer review style certification process as used in the 1970s and 1980s has become less realizable due to increasing organic production and consumption. It was replaced by a third party certification model, in which certification is provided by an independent agency. For almost 20 years now the third party certification model has been used and improved constantly. It is now necessary to verify both its impacts and attainment of target, particularly against the background of the upcoming revision of the EU organic regulation. Aim of the survey was to present the status quo of research according to the impact it has on the stakeholders of the organic certification system and to show, that a reason for the effects can be found in the confidence architecture of the certification system itself.

### 2 Material and Methods

Scientific findings from knowledge economy and microeconomics to confidence building in systems and organizations were contextualized to the certification system. A literature review was conducted with regard to topics dealing with impact effects of organizational culture created by the head of the organization, with moral hazards of stakeholders in the food supply chain and preferences both of farmers concerning the certification process and consumers to organic products. Thus, many socio-economic sides were considered.

### 3 Results

#### 3.1 Confidence building in the third party certification process

Peer review processes enable a form of social control. The need for fines in an effective social control process is quite low. As a rule, the members behave in a way which does not require any fines. The group confidence only works if the individual members practice an information exchange. In the currently prevailing third party certification system an

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interconnected disinterested party between producers and consumers assumes the verification of credibility (Wiens, 2013).

Credibility is closely linked to confidence building. In the context of confidence and organization the term systemic trust is frequently used, it means that a society trusts in a system and its functionality. The need for systemic trust is constantly growing in an increasingly complex world (Strulik, 2004). In this case it is the system of organic agriculture. From the knowledge economy it is known that confidence building by a disinterested third party between a confidence donor and a confidence taker takes place by a mistrust order. In the focus of knowledge economy are auditing companies [Strulik 2004]. Transferred to the organic agriculture system this means: In order to establish customer confidence in the organic agriculture system, the inspection bodies have to assume a mistrust order towards farmers and producers. Thus, the certification system is based on an institutionalized mistrust order. This kind of confidence building has certain effects.

### **3.2 Socio-economic effects of the organic certification system**

The certification system is a crucial component when it comes to assure credibility in organic agriculture and organic products. Do consumers trust in organic products? Sonderskov and Daugberg (2011) found, that the degree of state involvement in the certification process plays an important role. Consumer confidence in different organic food products is highest in countries with substantial, active and visible state involvement (Sonderskov and Daugberg, 2011). Important for the credibility is also the organic logo on the respective products. An organic product without an organic logo is usually not trusted by consumers (Janssen and Hamm, 2012). Food scandals and trustworthiness are also linked by consumers to the certification system. In Germany for example almost one third of consumers (39 %) believe that in the organic sector food scandals are less frequent than in the conventional food sector. They justify their opinion by the existence of stricter guidelines and a better control system in the organic sector (BMELV, 2013).

Effects due to the institutionalized mistrust order in the organic certification system are found also in the certification process. Carpenter and Reimers (2011) found that the vital corporate culture in an auditing firm has effects on the auditors. Auditors' fraud risk assessment is higher when they work with a partner who emphasizes professional skeptical behavior than with a partner who works with less emphasis on professional skepticism (Carpenter and Reimers, 2011). Indications for possible moral hazards and opportunistic behavior of auditors were found in the study by Zwill and Hirschauer (2007). In a study investigating the interaction processes between certifier and customer in the food industry it is emphasized, that the success of a certification process often depends on parameters which are not economic: confidence, honesty, transparency and fair behavior between certifier and customer in the past (Ingwald et al., 2011). These studies show that there is a need to investigate the social interaction processes especially for auditors and their impact on the whole certification process.

Another stakeholder in the certification system is the farmer, producing the organic raw products. Studies exploring the satisfaction of farmers with the control process come to differing results. Farmers with direct marketing on the farm are quite satisfied with the certification and control process (Schulze et al., 2008). A survey investigating farmers who shift back to conventional agriculture found that especially livestock farmers are dissatisfied with the control situation on their farms. Issues highlighted by the farmers had been the demonstration of power by the auditor, which is a result of the mistrust order the auditors have to assume, the almost offensive incompetence of the auditors, reflected for instance by clinging to tick the lists. In addition to this they criticize the auditors' lacking pragmatism, so trifles get high attention. In the farmers' view auditors demonstrate their lack of practical experience in this way. As a rule, farmers without animals are satisfied with the control situation on their farm (Kuhnert et al., 2013). If those statements represent the majority of organic farmers is actually not known.

## 4 Conclusions

The certification system is a crucial component to assure credibility in organic agriculture and organic products. Through the ongoing growth of the organic sector actors in the certification system continuously face new challenges. Recently, the effects on the stakeholders of the organic certification system have not been investigated in detail. The understanding of the role of trust and mistrust makes a differentiated view of the certification system possible and shows at the same time, that there is a need for a strategic process research.

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